**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application of	**)**	
Kansas Gas Service, a Division of ONE	**)**	
Gas, Inc. for Approval of an	**)**	
Accounting Order to Track Expenses	**)**	
Associated with the Investigating,	**)**	**Docket No. 17-KGSG-455-ACT**
Testing, Monitoring, Remediating and	**)**	
Other Work Performed at the	**)**	
Manufactured Gas Plant Sites	**)**	
Managed by Kansas Gas Service	**)**	

**DIRECT TESTIMONY
PREPARED BY
WILLIAM E. BALDRY
UTILITIES DIVISION
KANSAS CORPORATION COMMISSION**

September 8, 2017

Q. Would you please state your name and business address?

A. My name is William E. Baldry. My business address is 1500 Southwest Arrowhead Road, Topeka, Kansas, 66604.

Q. By whom are you employed and in what capacity?

A. I am employed by the Kansas Corporation Commission as a Senior Auditor.

Q. What is your educational background and professional experience?

A. I received a Bachelor of Business Administration from Washburn University with a major in accounting. In 1979, I graduated with a Master of Science from Oklahoma State University. Upon graduation from Oklahoma State University, I was employed by Touche Ross as an Auditor. In 1981, I entered the field of oil and gas with Reading & Bates Corporation and prepared financial statements and payouts of reversionary wells for the next eight years. In 1989, I joined Duffens Optical as Assistant Controller. My responsibilities included supervising employee benefits and payroll administrators and sales tax compliance. In 2000, I joined KMC Telecom as Business Manager. My responsibilities included weekly sales forecast projections and preparation of the annual budget. In 2001, I joined the staff of the Kansas Corporation Commission (Staff). I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

Q. Have you testified previously before this Commission?

A. Yes, I have testified in several dockets before the Commission.

SUMMARY

Q. Will you please provide a summary of your recommendation regarding KGS's request for an Accounting Authority Order (AAO)?

A. Kansas Gas Service (KGS) seeks authority to defer to a regulatory asset actual cash expenditures associated with environmental work performed at 12 manufactured gas plants (MGP) beginning on and after January 1, 2017. This includes cash expenditures associated with a current environmental reserve on KGS's books of $5.9 million in total, $4.5 million of which was recorded as an increase to expense and a reduction to net income and stockholders equity in the third and fourth quarters of 2016. This also includes all future cash expenditures that KGS may incur associated with environmental remediation of the MGP sites, although that potential risk and cost exposure has not been quantified by KGS. KGS is seeking approval to amortize these environmental costs over a ten-year period in subsequent rate cases.

My recommendation is that the Commission should deny KGS's request to defer and recover, through an AAO, the costs incurred for environmental work performed beginning in 2017 that relate to the $4.5 million of environmental remediation expense recognized on KGS's books in the last half of 2016 because:

- KGS's request for an AAO was not requested prior to incurring the expense, but instead nearly four and one half months after the economic impact of the event had been recorded in the financial statements of ONE Gas;
- The financial markets have already incorporated the economic impact of the increased environmental expense and reduced stockholders equity, during the year

2016, into ONE Gas's stock price and ONE Gas's shares still outperformed the SNL Gas Utility Index by a substantial margin;

- The $4.5 million expense was recognized on ONE Gas's books in 2016 as a reduction in net income and stockholders equity; and
- The AAO that KGS is requesting may be considered impermissible retroactive ratemaking.[1] [2]

Staff witness Justin Grady addresses Staff's recommendation that the remaining portions of KGS's AAO request be denied. Instead, Mr. Grady recommends that KGS be required to seek case-by-case approval of an AAO for each separate MGP site that it anticipates incurring at least $1,000,000 of environmental remediation expense going forward. Staff witness Leo Haynos addresses Staff's recommendations concerning the reporting requirements and Staff oversight and review of the projects that should be a part of any future AAO request by KGS.

BACKGROUND

Q. Would you please provide some background concerning the manufactured gas plants?

A. KGS is seeking approval to accumulate in a regulatory asset (for eventual recovery from ratepayers over ten years) actual cash expenditures for environmental remediation work performed on and after January 1, 2017. According to the Application, the remediation

[1] *See* Unified Sch. Dist. No. 259 v. State Corp. Comm'n, 176 P.3d 250, at *11 (Kan. Ct. App. 2008).

[2] I am not an attorney. Whether this is legally impermissible retroactive ratemaking or not can be the subject of briefing or oral arguments before the Commission, but in my non-legal, professional opinion, allowing KGS to recover these prior period losses from current ratepayers would certainly amount to unjust and unreasonable ratemaking.

costs relate to 12 sites, owned either by KGS or one of KGS's predecessors, that manufactured gas from coal from 1869 to 1930.[3] According to KGS, when manufactured gas was replaced with natural gas delivered through pipelines, the gas companies closed the sites using the best disposal and closure processes known at the time.[4] Over the last 87 years, environmental regulations have changed, and the waste from the process of manufacturing gas from coal left in the 12 sites has been determined by the Kansas Department of Health and Environment (KDHE) to be hazardous.

Q. What is KGS requesting in this docket?

A. KGS seeks approval to accumulate in a regulatory asset, and recover in subsequent rate cases, the actual and prudent cash expenditures it incurs beginning on January 1, 2017 for environmental work performed at 12 former manufactured gas plant sites (MGP). Recovery of the MGP costs would be requested in KGS's subsequent general rate cases to be amortized over a ten-year period.[5]

Q. Please discuss the portion of the environmental liability and expense KGS recorded on its books in the third and fourth quarters of 2016.

A. KGS recorded an environmental liability in September 2016 for $500,000 and an additional environmental liability in December 2016 for $4,000,000.[6] As KGS increased the environmental liability by $4,500,000, Generally Accepted Accounting Principles (GAAP) required the Company to increase its operating expense by the same amount in 2016.[7] The increased operating expense caused a reduction in KGS's net operating income by $4.5 million and a reduction to stockholders equity of $2,800,000 (after taking

[3] James Haught Testimony, Exhibit JEH – 1, page 2.
[4] James Haught Testimony, Exhibit JEH – 2, Article III, paragraph 9.
[5] Kansas Gas Service Application, pages 2-3.
[6] Please see the response to Staff DR No. 31 in Exhibit WEB -7.
[7] Accounting Standards Codification (ASC) 410-30-45-4.

the effect of income taxes into consideration) for 2016. As discussed in greater detail below, Staff's position is that the economic impact of the recognition of this increased operating expense and reduction in stockholders equity has already been reflected in the company's audited financial statements prepared in accordance with Generally Accepted Accounting Principles, and investors have reflected the impact of that event in the company's stock price.

Q. What is the purpose of an Accounting Authority Order (AAO)?

A. The purpose of an AAO is to allow a utility to accumulate expenditures in a regulatory asset and (or to accumulate revenues or credits in a regulatory liability) therefore allowing these expenses or revenues to be evaluated in a future rate case. Eventually these expenses or revenues will be amortized to expense or revenue in a future rate case or written off if the Commission does not allow recovery. In this way they are "deferred", to a future period instead of the expense or revenue impacting the income statement in the period in which they were incurred.

Q. If the Commission approves an AAO, does approval to defer the expenditures necessarily mean the Commission will allow the cost in the company's rates?

A. No. Granting an AAO merely allows the company to accumulate the expenses or revenues into a regulatory asset or liability. The company still has to request permission from the Commission to allow recovery of the expenditures in rates in a future rate case.

Q. What are the requirements under Generally Accepted Accounting Principles (GAAP) that a company must satisfy to record a regulatory asset?

A. The company must meet the following criteria:

1. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes;

2. Future revenue would be provided to permit recovery of the previously incurred costs.[8]

Q. Under what circumstances have utility companies in Kansas requested an AAO?

A. Companies have requested an AAO due to:

- Unexpected storm damage that caused the company to incur a large amount of expenditures to recover from the storm;
- Deferral of extraordinary or unique operational costs; and
- Changes in accounting rules.

Examples include damage due to ice storms, cleanup costs at a manufactured gas plant, changes in accounting for pensions, emergency activities in response to the presence of hydrogen sulfide gas, deferral of energy center costs until all units were operational, extraordinary repair costs at a generating unit, and deferral of the SmartStar project costs in Lawrence, Kansas.

Q. What has been the Commission's reasoning over the years to approve an AAO?

A. The reasons the Commission used to base its approval of an AAO to accumulate the costs incurred have been:

- The AAO achieved an equitable end result;
- Deferral of the costs is in the public interest and is just and reasonable;
- Deferral of the costs is prudent;
- It is appropriate that the utility have an opportunity to recover its costs;

[8] ASC 980-340-25-1.

- For the health, safety, and well-being of ratepayers;
- To provide an opportunity to seek recovery of costs, but there was no guarantee of cost recovery.

From a review of various orders requesting an AAO over a twenty year period, it appears that the Commission has agreed in the past that utilities should have an opportunity to record material expenditures caused by an unexpected event that rarely occurs in a regulatory account and request recovery of those expenditures in a future rate case.

Q. What standards or tests do other state commissions use in approving an AAO?

A. The Missouri Commission uses the Sibley test.[9]

Q. What criteria does the Sibley test use?

A. The criteria used in the Sibley test are:

- Is the event extraordinary;
- Has the event occurred or is certain to occur in the near future;
- There has to be a time limitation on deferrals. Deferrals cannot be allowed to continue indefinitely;
- Will the deferral of the costs help maintain the financial integrity of the utility;
- The decision to allow an AAO only allows deferral of the costs. Recovery of the costs would be reserved for a future rate case.

Q. Are the reasons the Kansas Commission has used in granting previous AAO requests similar to the reasons listed in the Sibley test?

[9] In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Electrical Operations, Case No. EO-91-358, *and* In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Purchase Power Commitments, Case Nos. EO-91-358 and EO-91-360; Re Missouri Pub. Serv. 129 P.U.R.4th 381, 383-387 (Dec. 20, 1991).

A. Yes. The Kansas Commission has approved AAO requests for events that had already occurred, were unusual and infrequent in occurrence, the event resulted in significant expenditures, deferral of the expenditures would help maintain the financial integrity of the company, and the company should have an opportunity to seek recovery of the expenditures in a future rate case (in other words, rate recovery was not guaranteed).

Q. What criteria does Staff recommend KGS should satisfy to qualify for an AAO?

A. Staff recommends that an AAO should meet the following criteria:

- The event is extraordinary;
- The event has recently occurred or will occur soon but the expense has not yet been recorded;
- The expenditure is material;
- The expenditures are limited to a particular MGP site;
- The company should have the opportunity to request recovery of the deferred costs in a future rate case.

Q. What is an extraordinary event?

A. An extraordinary event is one that is:

- Unusual in nature;
- Infrequent in occurrence;[10] and
- The expenditure is material.[11]

Q. What is a material expenditure?

A. Staff recommends the Commission find an expenditure to be material if it is expected to be greater than 5 percent of income, computed before extraordinary items.[12] KGS's $4.5

[10] ASC 225-20-45-2.
[11] FERC Uniform System of Accounts, Subchapter F, Part 201, General Instructions ¶7.

million expenditure for remediation work (less income taxes) was 17.87% of KGS's 2016 net income (after income taxes).[13]

Q. Please elaborate on the recommendation that the expenditures should be limited to a particular MGP site.

A. Staff recommends that the company apply for an AAO prior to incurring any remediation expense that is expected to exceed one million dollars per MGP site. When KGS does remediation work on another MGP site in the future, KGS should request a new AAO for the new expenditures.

STAFF'S POSITION

Q. What is Staff's position regarding KGS's AAO request?

A. Staff's position is that KGS's request for an AAO should be denied at this time. Staff witness Justin Grady recommends that KGS should be required to seek Commission approval of an AAO for each future MGP environmental project that exceeds $1,000,000. Mr. Grady also addresses the ratemaking treatment that he recommends apply to these costs, should an AAO be granted by the Commission in the future. My testimony supports this overall Staff recommendation by focusing on why the Commission should not allow KGS to retroactively defer and recover the $4.5 million expense that was recorded during the year 2016 from ratepayers through an AAO because:

1. KGS's request for an AAO was not requested in a timely fashion, but instead came nearly four and one half months after the economic impact of the event had been recorded in the financial statements of ONE Gas;

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[12] FERC Uniform System of Accounts, Subchapter F, Part 201, General Instructions ¶7.
[13] Exhibit WEB – 1.

2. The financial markets have already incorporated the economic impact of the increased environmental expense and reduced stockholders equity, during the year 2016, into ONE Gas's stock price and ONE Gas's shares still outperformed the SNL Gas Utility Index by a substantial margin;

3. The $4.5 million expense was recognized on KGS's books in 2016 which reduced net income and stockholders equity by $2.8 million (after taking the effect of income taxes into consideration); and

4. The AAO that KGS is requesting may be considered impermissible retroactive ratemaking.[14] If the regulatory asset was approved for the costs incurred in 2016, the Commission would essentially be adjusting current rates to make up KGS's under-collection of environmental costs in prior periods. I am not an attorney. Whether KGS's request amounts to legally impermissible retroactive ratemaking or not can be the subject of briefing or oral arguments before the Commission.

1. TIMELINESS OF FILING AN AAO APLICATION

Q. In the previous section you referred to instances in Kansas in which utilities have filed AAO requests to record a regulatory asset for expenditures that were extraordinary, unusual, non-recurring, and material. For example, utilities have filed an AAO for damage due to ice storms, clean-up of hazardous wastes, costs related to hydrogen sulfide gas, extraordinary repair costs, changes in accounting rules, and deferral of depreciation expense and carrying costs associated with a

[14] *See* Unified Sch. Dist. No. 259 v. State Corp. Comm'n, 176 P.3d 250, at *11 (Kan. Ct. App. 2008).

large environmental project. Do utilities typically recognize an expense on their books before filing a request for a regulatory asset?

A. No.[15] An AAO is normally used to prevent a company from recognizing an expense on the company's income statement for costs related to an extraordinary, unusual and infrequent event. For events that are unforeseeable, the company typically records the expense in a regulatory asset on the balance sheet instead of the income statement, then seeks approval through an AAO application. For events that are foreseeable, the utility typically asks for preapproval to record the expenses to a regulatory asset. Recording the expense in a regulatory asset prevents the company's earnings and equity levels from being negatively affected by the event. If approved, the accumulated expenses in the regulatory asset would be included in base rates in a future rate case and amortized over the period of recovery. With this treatment, the utility gets to recover its deferred expenses over a future time frame without ever incurring a hit to its net income levels, earnings per share, or stockholders equity. KGS's request is contrary to the normal rationale and purpose of an AAO. In this docket, the Company's shareholders have already absorbed the financial impact (reduction to net income, earnings per share, and stockholders equity) of the $4.5 million expense in 2016. More than four months after the end of 2016, KGS filed an Application requesting authorization to shift the $4.5 million expense to ratepayers and undo the negative financial impact to KGS shareholders.

Q. What is the usual timing of an AAO?

A. A utility usually seeks prior approval except when the event is not foreseeable, "In most jurisdictions, the regulated utility must seek prior permission from the agency

[15] Docket Nos. 185,507-U;191,339-U;97-KCPE-299-ACT;02-WSRE-692-ACT;02-WSRE-723-ACT;04-AQLG-393-ACT;05-WSEE-645-ACT;05-AQLG-687-ACT;05-MDWG-879-ACT;08-MDWE-180-ACT;08-WSEE-690-ACT;08-EPDE-714-ACT;12-MKEE-542-ACT;15-GIME-025-MIS.

before spending the money or booking such costs. Permission is given prospectively and not retroactively. A utility may not commence the deferral and amortization of a cost by establishing a reserve and expect to recover the amortized cost in its rates, unless it has requested deferral and amortization from the commission in advance. If the company goes forward and establishes an unauthorized reserve, the commission usually will not approve retroactive deferral of such costs." [16]

Q. How frequently does KGS review the reserves to remediate the 12 MGP sites?

A. Quarterly.[17]

Q. Was KGS's AAO application request filed prospectively for expenses which have not been incurred?

A. No. KGS's application was not filed timely. Most utilities seek AAO approval from the Commission before the expense is recorded except when the event is not foreseeable. KGS recorded a $500,000 increase to operating expenses in September 2016, and a $4,000,000 increase to operating expenses in December 2016, but KGS did not file its AAO Application until April 12, 2017. If an expense is foreseeable and meets the definitions of what can be deferred for regulatory purposes, the utility should file an application requesting the ability to record the expense to a regulatory asset before the expense has occurred. For ice storms and the presence of hydrogen sulfide gas, the expense is not foreseeable, but the request to defer should be made as quickly as possible. Absent approval from the Commission to defer the expenses, it is retroactive ratemaking. If KGS had requested an AAO prior to recognizing the reduction to expense and

[16] The Process of Ratemaking by Leonard Saul Goodman, Public Utilities Reports, Inc. 1998, page 322 in Exhibit WEB-7.
[17] Please see the response to Staff DR No. 64 Amended in Exhibit WEB - 7.

stockholders equity, Staff would not be concerned about the retroactivity of KGS's request.

Q. Utilities will often meet with Staff before making a filing with the Commission. KGS recorded a $4 million addition to its environmental liability in December 2016. Did KGS meet with Staff prior to making the $4 million adjustment?

A. No. KGS met with Staff to discuss the possibility of a future AAO application on February 22, 2017. I was not in attendance at this meeting, but Staff witness Justin Grady was.

Q. In requesting a regulatory asset, did other companies wait as long as KGS did to request an accounting authority order?

A. No.[18] For unforeseeable events, utilities requesting AAO's typically file very soon after the expense has been incurred. For foreseeable events, utilities typically file before the expense has been recorded to the company's books. For example, Kansas City Power & Light (KCPL) suffered an ice storm on October 22, 1996 and filed an AAO application on November 15, 1996. Western Resources experienced an ice storm on January 30 and 31, 2002 and filed an AAO on March 13, 2002. Aquila discovered hydrogen sulfide gas in its pipelines on February 3, 2005 and filed an AAO on February 11, 2005. Midwest Energy discovered hydrogen sulfide gas in its pipelines on March 11, 2005 and filed an AAO on April 4, 2005. The Financial Accounting Standards Board issued an accounting standard concerning recognition of the company's projected benefit pension liability on

[18] In Docket No. 08-EPDE-714-ACT, Empire suffered an ice storm in January 2007 and another ice storm in December 2007. Empire recorded the January 2007 ice storm expenses as a regulatory asset because Empire believed it was probable that the costs would be recoverable in future rate cases. After the December 2007 ice storm, Empire combined the restoration expenses of the two ice storms into one request and filed an AAO on January 29, 2008. This case is distinguishable from KGS's current AAO request in several ways as discussed below.

its books on September 29, 2006 that became effective for years ending after December 15, 2006. Atmos Energy filed an AAO on October 17, 2006 requesting prospective approval. Midwest Energy filed an AAO on August 17, 2007 requesting prospective approval to defer operating costs and investment of its Goodman Energy Center from June 1, 2008 (when the first phase was expected to become operational) until the second phase became operational on September 1, 2008. Kansas City Power & Light and Westar Energy filed an AAO on July 21, 2014 to defer depreciation expense and carrying costs related to the LaCygne environmental project until the project was completed in March 2015.[19]

Q. Empire District Electric suffered an ice storm in January 2007 and again in December 2007, but Empire did not file a request for an AAO until January 29, 2008. Empire waited almost a year after the January 2007 ice storm to request an AAO. How does Staff view Empire's request for an AAO as different from KGS's request?

A. First, Empire's request pertained to an event which was unforeseeable, KGS had six weeks advanced notice that it would be required to incur an expense. Additionally, Empire recorded the restoration expenses to a regulatory asset instead of operating expenses.[20] KGS, on the other hand, expensed the remediation costs it incurred in 2016. Moreover, Empire indicated in its first quarter 2007 Form 10-Q that Empire believed it was probable that these costs will be recoverable in future rate cases.[21] KGS stated in its 2016 Form 10-K that the costs associated with the remediation are not expected to be

[19] Exhibit WEB – 2.
[20] Empire District Electric Form 10-Q, First Quarter of 2007, page 29 in Exhibit WEB - 7.
[21] Empire District Electric Form 10-Q, First Quarter of 2007, page 33 in Exhibit WEB - 7.

material to the results of the Company's operations or financial position.[22] Accordingly, KGS recorded a reserve of $4 million in the fourth quarter of 2016. KGS made no indication in its 2016 Form 10-K as to the intention of seeking Commission approval to defer these costs for recovery in a future rate case.[23]

Q. What is Staff's view when a utility suffers an ice storm and files a request for an AAO after the ice storm?

A. Staff's view is that if an expenditure is foreseeable, the utility needs to seek preapproval from the Commission. An ice storm is not foreseeable, and has an immediate impact on the health, safety, and welfare of ratepayers. Staff expects that the utility will do everything necessary to repair its system as quickly as possible. Because there is an immediate and urgent impact on public health and safety, Staff believes if an ice storm AAO meets the basic criteria, the AAO should be approved.

Q. Does an MPG site that needs remediation work impact the health, safety, and welfare of ratepayers?

A. Yes. The difference between an ice storm and remediation work at an MGP site is that there is no immediate and urgent aspect to cleaning up an MGP site compared to an ice storm. The remediation work at the MGP sites has been going on for a long time, and KGS will continue to monitor the sites and perform remediation work long into the future.

Q. Kansas Public Service (KPS) filed an AAO in 1993 requesting approval to establish a regulatory asset account to accumulate costs incurred in the clean-up of the former Lawrence manufactured gas plant. How is KGS's request for an AAO

[22] ONE Gas 2016 Form 10-K, page 76 in Exhibit WEB – 7.
[23] ONE Gas 2016 Form 10-K, page 77 in Exhibit WEB – 7.

related to the $4.5 million of expense recorded in 2016 different from KPS's AAO request?

A. KPS had incurred $20,000 of costs associated with preliminary initiatives and investigation and estimated the cost of a detailed site investigation to be up to $200,000. The differences between KGS's request and Kansas Public Service's request are:

- KPS requested prospective approval of an AAO before incurring any detailed site investigation expenses; and
- KPS did not recognize any of the costs as an expense prior to filing the AAO.[24]
- Since KPS filed an AAO request in a timely manner and did not record any expense before incurring site investigation costs, KPS's request should not have been considered retroactive ratemaking.

Q. Do you believe KGS could have filed its AAO request before it incurred the $4.5 million of expense in 2016?

A. Yes. In response to Staff Data Request No. 4, No. 24, and No. 33, KGS explains that the information it relied on to record the environmental liability and operating expense was finalized and provided to the Kansas Department of Health and Environment on October 21, 2016. KGS has known of its obligation to remediate the MGP sites for years, it just could not estimate the expense of this particular remediation. Even when KGS could estimate the dollar amount of this remediation expense and recognized the expense on its

[24] Docket No. 185,507-U, Kansas Public Service Application, ¶9.

books, it did not file an AAO Application until four months after the most recent environmental expense was recognized in the Company's financials in December 2016.[25]

2. $4.5 MILLION REFLECTED IN FINANCIAL STATEMENTS

Q. Was the $4.5 million expense reflected in ONE Gas's audited financial statements for 2016?

A. Yes. KGS recorded a $500,000 increase to operating expense in September 2016, and recorded a $4,000,000 increase to operating expense in December 2016.

Q. What was the impact of the $4.5 million adjustment to ONE Gas's net income?

A. The $4.5 million expense reduced ONE Gas's net income by $2.8 million ($142.9 million excluding the $4.5 million expense compared to $140.1 million including the expense). The difference between the $4.5 million expense and the $2.8 million effect on net income is due to the tax deductibility of the expense. The $2.8 million reduction to net income reduced earnings per share by $0.05.[26]

Q. How does ONE Gas view the impact of environmental expenditures to its financial condition?

A. "With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us that are subject to environmental regulation, our environmental expenditures could increase in the future, and such expenditures may not be fully recovered by insurance or recoverable in rates from our customers, and those costs may adversely affect our financial condition, results of

[25] Please see the response to Staff DR No. 31 in Exhibit WEB - 7.
[26] Exhibit WEB – 3.

operations and cash flows. We do not expect expenditures for these matters to have a material adverse effect on our financial condition, results of operations or cash flows."[27]

Q. **How did KGS's stock perform during 2016, the year in which the company recorded the $4.5 million increase to expense, $2.8 million reduction to net income, and $2.8 million reduction to equity?**

A. Even though the $4.5 million expense decreased ONE Gas's operating income and presumably the stock market adjusted ONE Gas's stock price accordingly, ONE Gas's stock out-performed the SNL Gas Utility Index. ONE Gas's total return was up 30.46% for 2016 compared to SNL Gas Utility Index's total return increasing 22.56%.[28] [29]

Q. **Has KGS made investors aware of the potential for future remediation costs?**

A. Yes, KGS discloses the potential for environmental costs in its SEC filings. In the 2016 Form 10-K filing, ONE Gas states "We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all work at these sites. The terms of the consent agreement require us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation typically involves the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater."[30] Language similar to that quoted above has been included

[27] ONE Gas's 2016 Form 10-K, page 77 in Exhibit WEB - 7.
[28] Exhibit WEB – 4.
[29] Exhibit WEB – 5.
[30] ONE Gas 2016 Form 10-K, page 76 in Exhibit WEB - 7.

in ONE Gas's (or ONEOK's) 10-Ks for each of the last ten years.[31] This shows that investors have been on notice of this loss potential for a decade and still the OGS stock price has climbed to a record high price within the last few weeks.[32]

Q. Have environmental expenditures in 2014, 2015, and 2016 had a material effect on ONE Gas's net income, cash flows, or financial condition?

A. No. ONE Gas stated three times in its 2016 Form 10-K that "our expenditures related to environmental matters had no material effects on earnings or cash flows during 2016, 2015 and 2014".[33]

Q. Are ONE Gas's stockholders by and large characterized as sophisticated and knowledgeable?

A. Yes, the table below from SNL documents the ownership of OGS stock. As you can see close to 50% of OGS common stock is held by sophisticated institutional investors. And this knowledgeable, sophisticated investor base have bid OGS's stock up to a record high price.

Name	Shares	%	Value		
BlackRock Inc.	5,499,707	10.52	406,923,321	New York City,	Investment Adviser
Vanguard Group Inc.	5,072,922	9.71	375,345,499	Philadelphia, PA	Investment Adviser
T. Rowe Price Group Inc.	4,485,761	8.58	331,901,456	Baltimore/Wash	Investment Adviser
American Century Investment Manage	4,157,606	7.95	307,621,268	Kansas City, M	Investment Adviser
State Street Global Advisors Inc.	1,735,769	3.32	128,429,548	Boston, MA Me	Investment Adviser
Northern Trust Global Investments	1,140,038	2.18	84,351,412	Chicago, IL Me	Investment Adviser
Dimensional Fund Advisors LP	929,920	1.78	68,804,781	Austin, TX Met	Investment Adviser
Victory Capital Management Inc.	892,314	1.71	66,022,313	Cleveland, OH	Investment Adviser
AQR Capital Management LLC	739,712	1.42	54,731,291	New York City,	Investment Adviser
Boston Trust & Investment Manageme	586,583	1.12	43,401,276	Boston, MA Me	Investment Adviser
		48.29			

Staff has shown that:

[31] Form 10-K 2007, page 95; 2008, pages 103-104; 2009, page 105; 2010, page 113; 2011, page 119; 2012, page 126; 2013, page 66; 2014, page 78;2015, page 79; 2016, page 76.
[32] Exhibit WEB – 6.
[33] ONE Gas 2016 Form 10-K, pages 36, 37, and 77 in Exhibit WEB - 7.

1) ONE Gas stock has experienced exceptional returns in 2016;

2) Its stock price is at or near a record high; and

3) These returns have occurred during the year in which the $4.5 million was expensed, the resulting impact was felt in net income and earnings, and sophisticated investors have had ample disclosure regarding this risk.

3. RECORDING THE $4.5 MILLION ON KGS'S BOOKS

Q. What kind of accounting method does KGS use?

A. KGS uses the accrual method of accounting which recognizes revenues when earned and expenses when incurred. Using accrual accounting, KGS recognizes an expense when it is incurred rather than when the expense is paid. If a vendor provides KGS a service, KGS recognizes the service as an expense in the month the service is provided, rather than the month KGS pays for the service.

GAAP[34] required KGS to recognize a $4.5 million increase in operating expenses in the last half of 2016 as the Company increased its environmental liability even though the remediation costs related to the recognized expense won't be incurred and paid until 2017 and beyond. The recognition of the environmental liability as an expense lowered KGS's earnings and stockholders equity in 2016.

Q. Why did KGS recognize an increase to its environmental liability for $4,500,000 in 2016?

A. KGS has known for years it has an obligation to remediate 12 MGP sites, but it is difficult to estimate the dollar amount to remediate the MGP sites. GAAP requires KGS

[34] ASC 410-30-45-4.

to record an increase to its environmental liability and increase its operating expenses when a liability has been established, and the amount of the loss can be reasonably estimated.[35]

Periodic monitoring and an interim site investigation indicated elevated levels of potentially harmful materials at an MGP site in 2016. A comprehensive investigation plan was developed that had an estimated cost of $500,000. The $500,000 was recognized on the Company's books in September, 2016 as an increase to the environmental liability and an increase to operating expense. Based on the interim site investigation, KGS developed potential investigation and remediation alternatives that were estimated to cost at least $4,000,000. The $4,000,000 was recognized on the Company's books in December 2016 as an increase to the environmental liability and an increase to operating expense.[36]

Q. What does being able to make a reasonable estimate of a loss mean?

A. The requirement of being able to make a reasonable estimate is intended to prevent accrual in financial statements of amounts so uncertain as to impair the integrity of those statements. This requirement should not delay accruing a loss until only a single amount can be reasonably estimated. When the information available indicates that the estimated amount of the loss is within a range of amounts, it follows that some amount of loss has occurred and can be reasonably estimated. When KGS can determine that a loss

[35] ASC 410-30-25-1.
[36] Please see the response to Staff DR Nos. 4 Amended and 33 in Exhibit WEB-7.

contingency has occurred and the reasonable estimate of the loss is within a range, the loss has met the requirements under GAAP and KGS can record the loss on its books.[37]

Q. Why did KGS reflect the recognition of the loss as an operating expense?

A. Over the years, more and more companies have been required to remediate hazardous waste sites, and recognizing environmental liabilities have become a regular cost of doing business. Since remediation work has become widespread, GAAP requires environmental remediation related losses to be reported as an operating expense on the income statement.[38]

Q. KGS increased the environmental liability on its balance sheet and increased its expenses on the income statement by $4.5 million in 2016. Why did KGS record an expense when the Company did not spend any cash associated with this increased expense in 2016?

A. Under the accrual method of accounting, KGS records an expense when the expense is incurred not when the expense is paid. GAAP requires an expense to be recognized when the environmental liability is increased even though KGS did not spend any cash to clean up the MGP site in 2016.

When the Company has remediation work done in 2017 and beyond that is related to the MGP site, the cash spent will not reduce KGS's net income or stockholders equity because the financial impact of the event will have already been recorded to KGS's financial statements in the year 2016.

[37] ASC 450-20-25-5.
[38] ASC 410-30-45-4.

Q. Could you give an example of recognizing a liability in 2017, but not spending any cash until 2019?

A. I walk into a new car dealership, and sign a contract in 2017 where I promise to buy a new car in 2019. The car model I want to purchase currently costs $40,000, so I believe it is reasonable to expect my new car will cost $40,000 or more in 2019. Since I signed a contract with the dealership obligating myself to buy a new car in 2019, I incurred an economic loss in 2017 even though I haven't spent any cash yet. I recorded a liability on my books in 2017 because I have an obligation to purchase a car, and I can make a reasonable estimate as to how much the car will cost in 2019. I don't have to predict precisely what the cost of the car will be in 2019, GAAP requires me to be able to make a reasonable estimate as to the future cost. If a bank loan officer looked at my financial statements in 2017, he would see I have reduced my operating income and increased my liabilities by $40,000 in 2017, and he would take the lower income and increased liability into consideration in evaluating my credit worthiness. In 2019, I go to the dealership and learn the car now costs $45,000. I give the dealership $45,000 in cash, receive a new car, and eliminate the liability on my books. Eliminating the $40,000 liability in 2019 would have no impact on my 2019 operating income because I recognized the reduction to income in 2017.

KGS knows it has a liability to remediate 12 manufactured gas plant sites (MGP), but it cannot make a reasonable estimate as to how much money it will take to clean up the 12 sites over many years into the future. In 2016, KGS was able to make a reasonable estimate as to the cost for *some* remediation activity that needed to be done. The recognition of the lability and related expense resulted in an increase in the environmental liability for $4.5 million and a decrease to operating income for $4.5 million.

Q. As of December 31, 2016, had KGS expended any cash related to the $4.5 million accrual made in the last half of 2016?

A. No. KGS recorded $4.5 million of estimated remediation expense on its books for the Abilene site in 2016, but no actual remediation cash was expended in 2016. KGS expects the remediation work to occur after January 1, 2017.[39]

Q. Does this conclude your testimony?

A. Yes, it does.

List of Exhibits:

WEB – 1 Extraordinary Item

WEB – 2 Comparison of Various Accounting Authority Orders

WEB – 3 ONE Gas Net Income With and Without the $4.5 Million Expense

WEB – 4 Percentage Return for ONE Gas and SNL Gas Utility Index for 2016

WEB – 5 Companies Comprising the SNL Gas Utility Index

WEB – 6 ONE Gas Stock Price in August 2017

WEB – 7 Empire District Electric 2007 First Quarter, Form 10-Q, pages 29 and 33.

WEB – 7 ONE Gas, Inc. 2016 Form 10-K, pages 36, 37, 76, and 77.

WEB – 7 Staff Data Request Responses

[39] Application, paragraph 3.

Kansas Gas Service
17-KGSG-455-ACT
Calculation of $4.5 Million Extraordinary Item as a percentage of
Net Income Excluding the Extraordinary Item
For the Year Ending December 31, 2016

Line No.	Description			Kansas Gas Service Net Income Adjusted to Exclude $4.5 Million Extraordinary Item
1	Income Before Income Taxes (as reported in FERC Form 2)			$20,683,754
2	Remove Effect of Extraordinary Item			4,500,000
3	Income Before Income Tax (excludes the $4.5 million expense)			25,183,754
4	Income Taxes Based on a Tax Rate of 76.7326%			(19,324,149)
5	Net Income Excluding Extraordinary Item			$5,859,605
6	Extraordinary Item			4,500,000
7	Income Tax on Extraordinary Item at a tax rate of 76.7326%			(3,452,967)
8	Extraordinary Item Net of Income Taxes			1,047,033
9	Percentage of Extraordinary Item to KGS Net Income Before Extraordinary Item			
10	Extraordinary Item Net of Income Taxes	1,047,033	=	17.8687%
11	Net Income Excluding Extraordinary Item	5,859,605		
12	Income Tax Rate Calculation			
13	Actual Kansas Gas Service Income Tax (2)	15,871,176	=	76.7326%
14	Actual KGS Income Before Income Taxes (1)	20,683,754		

(1) Income before income taxes shown in Kansas Gas Service's 2016 FERC Form 2, page 116. Income includes the $4.5 million environmental expense that reduced operating income in 2016.

(2) 2016 Income tax expense shown in Kansas Gas Service's 2016 FERC Form 2, page 261. Income tax expense was calculated based on Kansas Gas Service's income which included KGS's recognition of the $4.5 million environmental expense.

Note: Presentation and calculation of extraordinary item is based on ASC 225-20-45-10.

Source: Kansas Gas Service's FERC Form 2 for 2016, pages 114, 116, and 261

THIS FILING IS	
[x] An Initial (Original) Submission	OR [ ] Resubmission No. ____

Form 2 Approved
OMB No. 1902-0028
(Expires 09/30/2017)

FERC FINANCIAL REPORT
FERC FORM No. 2:
Annual Report of Major Natural Gas Companies

This report is mandatory under the Natural Gas Act, Sections 10(a) and 16, and 18 CFR 260.1. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)	Year of Report
Kansas Gas Service a division of ONE Gas, Inc.	**December 31, 2016**

STATEMENT OF INCOME

1. Report amounts for accounts 412 and 413, Revenue and Expenses from Utility Plant Leased to Others, in another utility column (i,j) in a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.

2 Report amounts in account 414, Other Utility Operating Income in the same manner as accounts 412 and 413 above.

3 Report data for lines 8, 10, and 11 for Natural Gas companies using accounts 404.1, 404.2, 404.3, 407.1, and 407.2

Line No.	Account (a)	Ref. Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)
1	UTILITY OPERATING INCOME			
2	Gas Operating Revenues (400)	300-301,12	483,458,797	533,449,344
3	Operating Expenses			
4	Operation Expenses (401)	317-325	334,024,332	382,219,316
5	Maintenance Expenses (402)	317-325	21,676,744	21,204,989
6	Depreciation Expense (403)	336-338	47,077,498	44,355,253
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-338		
8	Amort. & Depl. of Utility Plant (404-405)	336-338	43,924	23,498
9	Amort. of Utility Plant Acq. Adj. (406)	336-338		
10	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407.1)			
11	Amort. of Conversion Expenses (407.2)			
12	Regulatory Debits (407.3)		1,197,619	(114,456)
13	(Less) Regulatory Credits (407.4)			
14	Taxes Other Than Income Taxes (408.1)	262-263	27,278,149	26,344,373
15	Income Taxes - Federal (409.1)	262-263	(19,642,249)	(1,016,412)
16	Income Taxes - State (409.1)	262-263	(2,553,492)	(132,134)
17	Provision of Deferred Income Taxes (410.1)	232, 276-277	38,216,089	17,484,787
18	(Less) Provision for Deferred Income Taxes - Cr.(411.1)	234, 276-277		
19	Investment Tax Credit Adj. - Net (411.4)		(149,172)	(201,384)
20	(Less) Gains from Disp. of Utility Plant (411.6)			
21	Losses from Disp. of Utility Plant (411.7)			
22	(Less) Gains from Disposition of Allowances (411.8)			
23	Losses from Disposition of Allowances (411.9)			
24	Accretion Expense (411.10)			
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		447,169,442	490,167,830
26	Net Utility Operating Income (Enter Total of line 2 less 25) (Carry forward to page 116, line 27)		36,289,355	43,281,514

STATEMENT OF INCOME (Continued)				
Line No.	Account (a)	Ref. Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)
27	Net Utility Operating Income (Carried forward from page 114)		36,289,355	43,281,514
28	Other Income and Deductions			
29	Other Income			
30	Nonutility Operating Income			
31	Revenues From Merchandising, Jobbing and Contract Work (415)		258	(4,552)
32	(Less) Costs and Exp. of Merchandising, Job & Contract Work (416)			
33	Revenues From Nonutility Operations (417)		581,259	631,819
34	(Less) Expenses of Nonutility Operations (417.1)		59,886	146,893
35	Nonoperating Rental Income (418)			
36	Equity in Earnings of Subsidiary Companies (418.1)	119		
37	Interest and Dividend Income (419)			0
38	Allowance for Other Funds Used During Construction (419.1)			
39	Miscellaneous Nonoperating Income (421)		444,644	4,877
40	Gain on Disposition of Property (421.1)			
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		966,275	485,251
42	Other Income Deductions			
43	Loss on Disposition of Property (421.2)			
44	Miscellaneous Amortization (425)	340		
45	Donations (426.1)	340	190,367	104,224
46	Life Insurance (426.2)			
47	Penalties (426.3)	340	10,104	17,200
48	Expenditures for Certain Civic, Political, and Related Activities (426.4)	340	249,095	230,671
49	Other Deductions (426.5)	340	107,321	496,730
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)	340	556,887	848,825
51	Taxes Applic. to Other Income and Deductions			
52	Taxes Other Than Income Taxes (408.2)	262-263		
53	Income Taxes - Federal (409.2)	262-263		
54	Income Taxes - Other (409.2)	262-263		
55	Provision for Deferred Inc. Taxes (410.2)	234,276-277		
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234,276-277		
57	Investment Tax Credit Adj.- Net (411.5)			
58	(Less) Investment Tax Credits (420)			
59	TOTAL Taxes on Other Inc. and Ded. (Enter Total of 52 thru 58)		0	0
60	Net Other Income and Deductions (Enter Total of lines 41,50,59)		409,388	(363,574)
61	Interest Charges			
62	Interest on Long-Term Debt (427)			
63	Amortization of Debt Disc. and Expense (428)	258-259		
64	Amortization of Loss on Reacquired Debt (428.1)		368,819	0
65	(Less) Amort. of Premium on Debt - Credit (429)	258-259		
66	(Less) Amortization of Gain on Reacquired Debt - Credit (429.1)	256-257		
67	Interest on Debt to Assoc. Companies (430)	340	15,543,625	18,707,717
68	Other Interest Expense (431)	340	340,416	28,787
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		237,871	183,503
70	Net Interest Charges (Total of lines 62 thru 69)		16,014,989	18,553,001
71	Income Before Extraordinary Items (Enter Total of lines 27, 60 and 70)		20,683,754	24,364,939
72	Extraordinary Items			
73	Extraordinary Income (434)			
74	(Less) Extraordinary Deductions (435)			
75	Net Extraordinary Items (Enter Total of line 67 less line 68)			
76	Income Taxes - Federal and Other (409.3)	262-263		
77	Extraordinary Items After Taxes (Enter Total of line 73 less line 74)			
78	Net Income (Enter Total of lines 71 and 77)		20,683,754	24,364,939

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during 2016 or 2015. A number of environmental issues may exist with respect to environmental sites which are unknown to us. Accordingly, future costs are dependent on the final determination and regulatory approval of any remedial actions, the complexity of the site, level of remediation required, changing technology and governmental regulations, and to the extent not recovered by insurance or recoverable in rates from our customers, could be material to our financial condition, results of operations or cash flows.

3. RATE MATTERS AND REGULATION

In December 2013, a Unanimous Settlement Agreement was reached related to the separation of ONEOK and its distribution companies. The conditions of the agreement require the following: The regulatory asset that existed relating to transaction cost recovery in the amount of $10.2 million was eliminated. For purposes of calculating the deferred pension and OPEB expenses, the amount considered as being in base rates was reduced by $3 million. A one-time rebate of approximately $3.4 million was be issued to KGS customers in April of each year 2016, 2015, and 2014.

In November 2016, a Unanimous Settlement Agreement was reached providing KGS a net revenue increase of $15.5 million, effective January 1, 2017. Included in the $15.5 million is the existing balance of GSRS in the amount of $7.46 million.

K.S.A. 66-117(f) provides authority for a utility's between-rate-case recovery of Ad Valorem tax increases. Kansas Gas Service Ad Valorem Tax Surcharge tariff began recovering these increased expenses in October 2004. The surcharge amount is updated each year after new tax assessments are received.

The KCC issued an order in June 2005 which allowed recovery of gas costs associated with customer uncollectable accounts through the Actual Cost Adjustment (ACA) clause of the COGR. At December 2016 $670 thousand had been deferred for recovery. The amount deferred at June 2017 will be included in the ACA calculation effective for August 2017 cost of gas rates.

The Gas System Reliability Surcharge, obtained in January 2009, provides for increased revenue between rate cases for depreciation and financing costs associated with investments made to comply with state or federal pipeline safety requirements or costs to relocate existing plant in service requested by governmental entities.

KGS obtained approval in September 2009 to record regulatory assets/(liabilities) for differences between current year GAAP pension and post employment expenses and those expenses included in rates. The amount recorded at December 2016 for pension is $13.6 million and the amount for OPEB is ($16) million. The 2012 Rate Case provided for the recovery of these assets/liabilities over a 5 year period. New assets/liabilities were recorded starting January 2013 based on the difference between GAAP expense and new amounts agreed to in the 2012 Stipulation as being in base rates for pension and OPEB. Effective for the January 2014 calculation the amount considered as being in base rates was reduced by $3 million in accordance with the Settlement Agreement between the KCC and KGS regarding the separation of ONEOK and the distribution companies. Effective January 2017 the remaining balances of unamortized pension and OPEB assets/(liabilities) will be amortized over a 3 year period.

4. LEGAL PROCEEDINGS

The company and its divisions are involved in various other legal, environmental and regulatory proceedings. Management believes that adequate provision has been made and accordingly believes that the ultimate dispositions of these matters will not have a material adverse effect upon the company's overall financial position or results of operations.

5. LEASES

At December 31, 2016, the company had leases covering various property and equipment. The company currently has no significant capital leases. All operating leases are cancelable.

6. INCOME TAXES

Income tax expense is composed of the following components at December 31:

	2016	2015
	(Dollars in Thousands)	
Currently payable:		
Federal........	($19,642)	($1,016)
State..........	(2,553)	(132)
Deferred:		
Federal........	33,819	15,473
State..........	4,396	2,011
Amortization of investment tax credits.......	(149)	(201)
Total income tax expense .	$15,871	$16,135

RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES

1. Report the reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.
2. If the utility is a member of a group which files a consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members.
3. A substitute page, designed to meet a particular need of a company, may be used as long as the data is consistent and meets the requirements of the above instructions.

Line No.	Particulars (Details) (a)	Amount (b)
1	Net Income for the Year (Page 116)	20,683,754
2	Reconciling Items for the Year	
3		
4		
5		
6		15,871,176
7	Federal & State Income Taxes	
8		
9		
10		
11		
12	Taxable Income Not Reported on Books	
13	Other CIAC to Income	2,844,141
14		
15		
16		
17		
18		
19		
20		
21		
22	Deductions Recorded on Books Not Deducted for Return	
23	Allowance for Bad Debts	1,948,000
24	50% Meals Disallowance	177,539
25	Pension OPEB Recovery Deferral	5,325,691
26	Lobbying	208,315
27	FAS 87 Pension: Book Accrual	6,893,673
28	See Below	35,596,068
29		
30		
31		
32		
33		
34	Income Recorded on Books Not Included in Return	
35		
36		
37		
38		
39	Deductions on Return Not Charged Against Book Income	
40	Bad Debts: Charge Offs	1,776,920
41	See Below	133,611,427
42		
43	Federal Tax Net Income	(45,839,990)
44	Show Computation of Tax:	
45	Tax (calculated using a composite rate)	(18,129,716)
46	Less: State Income Tax Adjustment	(3,208,799)
47	Total Federal Income Tax Charged to Accrual	(14,920,917)
48		

Kansas Gas Service
17-KGSG-455-ACT
Comparison of Various Accounting Authority Orders
June 19, 2017

	Docket No.	Purpose	Date Event Occurred	Date of Application	Date of Staff's Report and Recom.	Have Costs Occurred Prior to the Company Filing an Accounting Authority Order Request	Date Expense Incurred	Was AAO Granted, Denied, or Withdrawn
1.	185,507-U	Accrue Actual Costs Incurred in Cleanup of a Manufactured Gas Plant site Costs and reimbursements were shared 60% to ratepayers and 40% to shareholders	1953	2/4/1993	4/16/1993	no	incurred after 4/16/1993	Granted
2.	191,339-U	Accrue Actual Costs Incurred in Cleanup of sites Where Mercury Meters Were Used	prior to 1994	9/12/1994	12/15/1995	no	incurred after 12/15/1995	Granted
3.	97-KCPE-299-ACT	Accounting Deferral Order for Storm Damage	10/22/1996	11/15/1996	2/4/1997	yes	10/22/1996 - 11/15/1996	Granted
4.	02-WSRE-692-ACT	Accumulate and Defer Difference in Annual Fixed Charges and a Variable Energy Charge Accounting Order allowed Westar to accumulate and defer for possible future recovery the incremental difference for power purchased from the State Line generating facility	3/5/2002	3/5/2002	3/26/2002	no	incurred after 3/26/2002	Granted
5.	02-WSRE-723-ACT	Recover Costs Related to Ice Storm Damage	01/30 - 01/31/2002	3/13/2002	5/8/2002	yes	01/30/2002 to 04/24/2002	Granted
6.	02-WSRE-822-ACT	Record Difference Between GAAP Depreciation Expense and Regulatory Depreciation Expense	4/16/2002	4/16/2002	6/28/2002	no	incurred after 6/28/2002	Application Withdrawn
7.	03-KG&E-103-ACT	Record and Preserve Cost Savings Related to Operational Services Agreement	7/30/2002	7/30/2002	12/31/2002	no	July 2002 - Dec. 2002	Application Withdrawn

Kansas Gas Service
17-KGSG-455-ACT
Comparison of Various Accounting Authority Orders
June 19, 2017

	Docket No.	Purpose	Date Event Occurred	Date of Application	Date of Staff's Report and Recom.	Have Costs Occurred Prior to the Company Filing an Accounting Authority Order Request	Date Expense Incurred	Was AAO Granted, Denied, or Withdrawn
8.	04-AQLG-393-ACT	Accounting Deferral Order for Investigation and Cleanup for Compressor Stations	prior to 9/13/2000	10/28/2003	3/16/2004	no	incurred after 3/16/2004	Application Withdrawn
9.	04-WSEE-605-ACT	Accounting Deferral Order to Preserve Differences of Asset Retirement Obligations for FASB 143 Purposes and Asset Retirement Obligations for Regulatory Purposes	Jan. 15, 2004	1/15/2004	2/2/2004	no	incurred beginning 06/15/200	Granted
10.	05-WSEE-463-ACT	Accounting Authority Order Record a Minimum Pension Liability as a Regulatory Asset	Nov. 23, 2004	11/23/2004	1/13/2005	yes	recognize a regulatory asset as of 12/31/2004	Granted
11.	05-WSEE-645-ACT	Recover Costs Related to Ice Storm Damage	Jan. 2005	2/3/2005	3/18/2005	yes	January 2005	Granted
12.	05-AQLG-687-ACT	Recover Costs Related to Presence of Hydrogen Sulfide Gas	2/3/2005	2/11/2005	6/1/2005	yes	incurred beginning 02/03/200	Granted
13.	05-MDWG-879-ACT	Recover Costs Related to Presence of Hydrogen Sulfide Gas	3/11/2005	4/4/2005	6/1/2005	yes	incurred beginning 3/11/2005	Granted
14.	06-KCPE-1190-ACT	Recover the Cost of the Business Energy Analyzer software	May 8, 2006	5/8/2006	12/18/2006	no	incurred beginning 12/22/200	Granted

Kansas Gas Service
17-KGSG-455-ACT
Comparison of Various Accounting Authority Orders
June 19, 2017

	Docket No.	Purpose	Date Event Occurred	Date of Application	Date of Staff's Report and Recom.	Have Costs Occurred Prior to the Company Filing an Accounting Authority Order Request	Date Expense Incurred	Was AAO Granted, Denied, or Withdrawn
15.	07-ATMG-387-ACT	Establish a Regulatory Asset When a Pension Plan's Asset is Less Than the Plan's Projected Benefit Obligation	9/29/2006	10/17/2006	12/22/2006	yes	recognize a regulatory asset as of 12/31/2006	Denied Requests 1&3 Approved Request 2
16.	08-MDWE-180-ACT	Defer Goodman Energy Center Costs Until All Units are Operational	6/1/2008	8/17/2007	12/6/2007	no	06/01/2008 - 09/01/2008	Gramted
17.	08-WSEE-690-ACT	Defer Ice Storm Costs	Dec. 2007	1/18/2008	2/21/2008	yes	December 2007	Granted
18.	08-EPDE-714-ACT	Defer Ice Storm Costs	Jan. 2007 and Dec. 2007	1/29/2008	6/4/2008 6/4/2008	yes	Jan. and Dec. 2007	Granted
19.	08-WSEE-862-ACT	Defer Related to Energy Efficiency Programs	early 2008	3/19/2008	10/15/2008	no	incurred beginning in 2008	Conditionally Granted
20.	10-KGSG-130-ACT	Establish Tracker 1 to Record the Difference Between Current Year Pension Expense and the Pension Expense that is in Rates	Oct. 17, 2006	8/28/2009	8/28/2009	no	January 1, 2009	Granted
21.	11-WSEE-610-ACT	Defer SmartStar Lawrence Project Costs	March 2, 2011	3/2/2011	6/30/2011	no	October 2011	Granted
22.	12-MKEE-542-ACT	Defer Extraordinary Repair Costs to Clifton Generating Unit I	Jan. 18, 2012	1/18/2012	2/24/2012	yes	2011 through March 31, 2012	Granted

Kansas Gas Service
17-KGSG-455-ACT
Comparison of Various Accounting Authority Orders
June 19, 2017

	Docket No.	Purpose	Date Event Occurred	Date of Application	Date of Staff's Report and Recom.	Have Costs Occurred Prior to the Company Filing an Accounting Authority Order Request	Date Expense Incurred	Was AAO Granted, Denied, or Withdrawn
23.	15-GIME-025-MIS	Defer depreciation expense and carrying costs related to the LaCygne environmental project	July 21, 2014	7/21/2014	7/30/2014	yes	07/01/13 through 3/31/2015	Granted

Note: The purpose of this spreadsheet is to list the various accounting authority orders where the costs were incurred prior to the utility filing an AAO and AAO's where the costs will be incurred in the future.

File: Excel / KGS 17-KGSG-455-ACT / Acctg Author Order Comparison

Kansas Gas Service
17-KGSG-455-ACT
Net Income With and Without the $4.5 Million Adjustment
For the Year Ending December 31, 2016

Line No.	Description	Net Income Includes $4.5 Million Environmental Expense (in thousands except per share amounts)	Net Income Excludes $4.5 Million Environmental Expense (in thousands except per share amounts)
1	Income Before Income Taxes	$225,338	$225,338
2	Remove Effect of Adjustment to Environmental Liability		4,500
3	Income Before Income Tax	225,338	229,838
4	Income Taxes Based on a Tax Rate of 37.829%	(85,243)	(86,945)
5	Net Income	$140,095	$142,893
	Earnings Per Share		
6	Basic	$2.67	$2.72
7	Diluted	$2.65	$2.70
	Average Shares		
8	Basic	52,453	52,453
9	Diluted	52,963	52,963

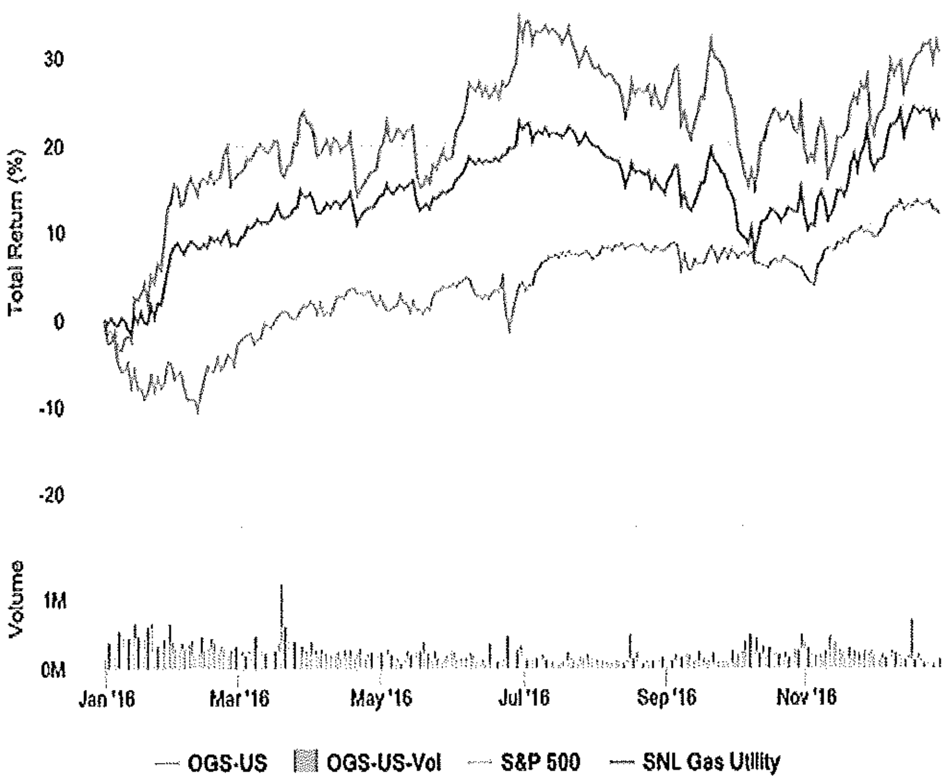
Income Tax Rate Calculation

10	Income Tax	85,243	=	0.378290
11	Income Before Income Taxes	225,338		

Source: ONE Gas 2016 Form 10-K, page 46

ONE Gas, Inc. | Stock Chart
NYSE:OGS (SNL Inst Key: 4427129)

Period: Custom
Metric: Total Return (%)
Frequency: Daily



	Last	Change	%Change	Volume	52-Week High	52-Week Low	As Of
OGS-NYSE	$73.75	$(0.21)	(0.28)	42,672	$74.84 (8/16/2017)	$55.98 (10/9/2016)	08/18/2017 9:04 AM ET

Total Return (%) - 12/31/2015 to 12/31/2016 - Daily				
Pricing Date	OGS-US	OGS-US-Vol	S&P 500	SNL Gas Utility
12/30/2016	30.46	156,531	11.96	22.56
12/29/2016	31.67	74,015	12.48	23.54
12/28/2016	29.61	71,955	12.50	22.14
12/27/2016	31.75	65,134	13.43	23.95
12/23/2016	31.42	85,985	13.18	23.73
12/22/2016	31.44	101,374	13.02	23.99
12/21/2016	30.46	170,916	13.22	23.58
12/20/2016	30.36	214,372	13.50	23.99

ONE Gas, Inc. | Stock Chart
NYSE:OGS (SNL Inst Key: 4427129)

Period: Custom
Metric: Total Return (%)
Frequency: Daily

12/19/2016	29.59	157,831	13.07	24.31
12/16/2016	28.79	715,007	12.84	23.37
12/15/2016	27.34	202,767	13.04	22.28
12/14/2016	26.10	142,411	12.60	20.97
12/13/2016	29.46	188,822	13.51	23.83
12/12/2016	28.95	200,814	12.75	22.67
12/9/2016	28.02	238,739	12.87	22.26
12/8/2016	29.30	253,080	12.21	22.21
12/7/2016	26.36	150,795	11.95	20.63
12/6/2016	24.00	186,168	10.48	18.49
12/5/2016	23.75	208,491	10.10	18.26
12/2/2016	22.96	154,273	9.45	18.10
12/1/2016	21.08	199,066	9.41	17.16

Component Companies SNL Gas Utility

Selected Index: SNL Gas Utility
Membership Date: 08/23/2017

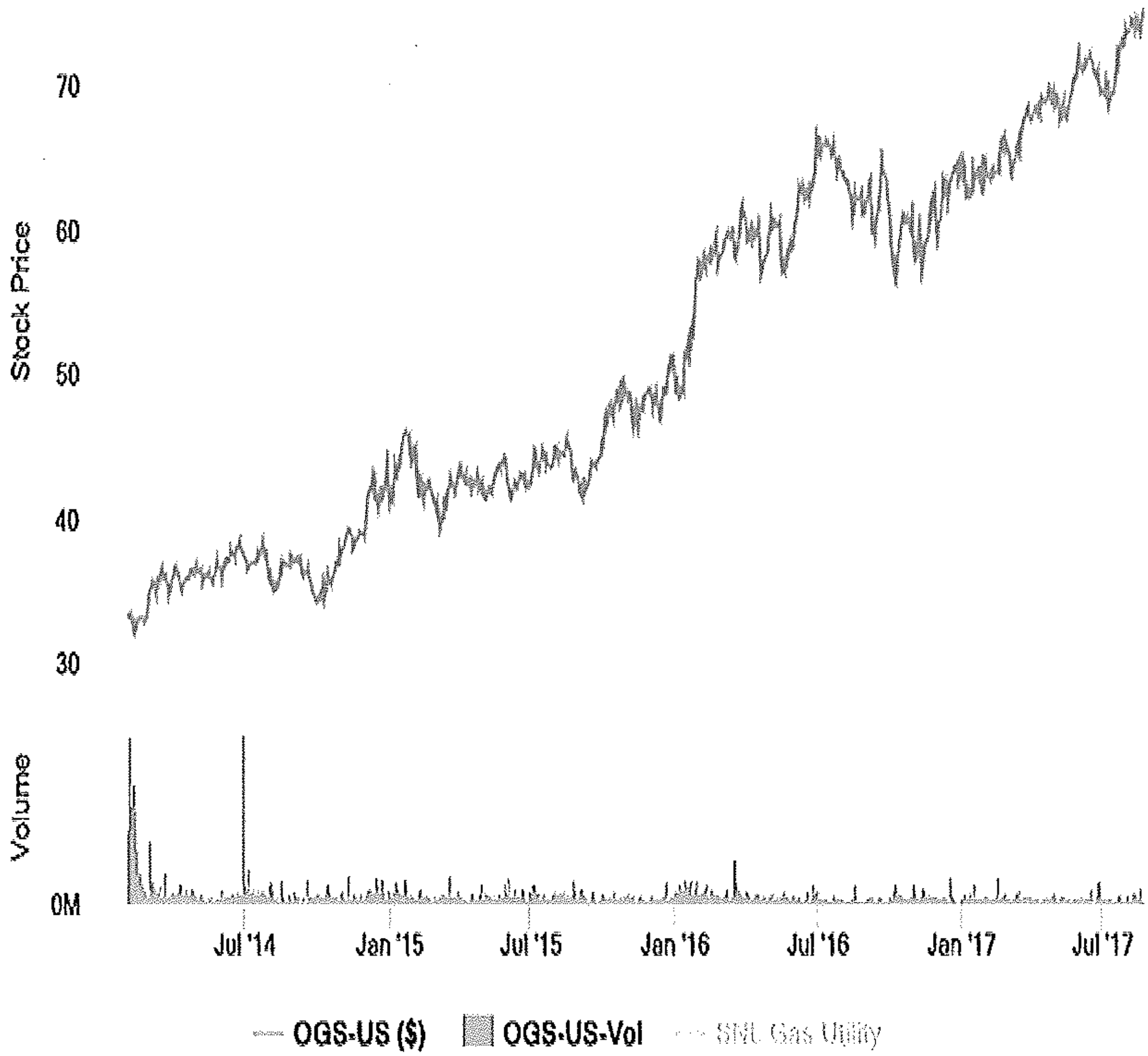
Index Membership As Of 8/23/2017

SNL Institution Key	Trading Symbol	Company	Exchange	City	ST	Industry	Weight (%)
4057157	ATO	Atmos Energy Corp.	NYSE	Dallas	TX	Gas Utility	24.1190
4057118	DGAS	Delta Natural Gas Co.	NASDAQ	Winchester	KY	Gas Utility	0.5630
4010821	NFG	National Fuel Gas Co.	NYSE	Williamsville	NY	Gas Utility	12.6955
4057128	NJR	New Jersey Resources Corp.	NYSE	Wall	NJ	Gas Utility	9.7413
4057132	NWN	Northwest Natural Gas Co.	NYSE	Portland	OR	Gas Utility	4.7879
4427129	OGS	ONE Gas Inc	NYSE	Tulsa	OK	Gas Utility	10.0938
4057142	RGCO	RGC Resources Inc.	NASDAQ	Roanoke	VA	Gas Utility	0.5093
4057145	SJI	South Jersey Industries Inc.	NYSE	Folsom	NJ	Gas Utility	7.1882
4884928	SWX	Southwest Gas Holdings Inc.	NYSE	Las Vegas	NV	Gas Utility	9.7380
4002506	SR	Spire Inc.	NYSE	Saint Louis	MO	Gas Utility	9.5040
4007261	WGL	WGL Holdings Inc.	NYSE	Washington	DC	Gas Utility	11.0600

SNL Gas Utility : Includes all publicly traded (NYSE, NYSE MKT, NASDAQ, OTC) Gas Utility, and Gas Pipeline

ONE Gas, Inc. | Stock Chart
NYSE:OGS (SNL Ins

Period: 5 Years
Metric: Stock Price
Frequency: Daily



	Last	Change	%Change	Volume	52-Week High	52-Week Low	As Of
OGS-NYSE	$75.32	$(0.05)	(0.07)	41,444	$75.47 (8/23/2017)	$55.98 (10/9/2016)	08/25/2017 12:57 PM ET

Stock Price - 8/24/2012 to 8/24/2017 - Daily			
Pricing Date	OGS-US ($)	OGS-US-Vol	SNL Gas Utility
8/24/2017	75.3700	99,421	601.1835
8/23/2017	74.9700	110,445	598.4777
8/22/2017	74.9900	117,164	599.1915
8/21/2017	73.9000	142,479	594.3127
8/18/2017	73.6600	432,293	593.1716
8/17/2017	73.9600	226,017	594.7687
8/16/2017	74.5500	147,786	600.4227
8/15/2017	74.2300	161,168	598.1496
8/14/2017	74.5700	218,088	599.9228
8/11/2017	73.9900	308,876	596.5846
8/10/2017	74.5900	147,828	603.0398
8/9/2017	74.4900	219,891	600.8181
8/8/2017	74.6300	115,332	601.1302
8/7/2017	73.9900	100,364	596.2459
8/4/2017	73.7800	110,289	596.9033
8/3/2017	73.7200	222,378	594.2529
8/2/2017	73.5600	218,759	596.8691
8/1/2017	73.9500	229,438	594.8642

Docket No. 17-KGSG-455-ACT

Testimony of William E. Baldry

Exhibit WEB – 7

Exhibit WEB – 7 Contains:

1. Empire District Electric 2007 First Quarter Form 10-Q, pages 29 and 33.

2. ONE Gas, Inc. 2016 Form 10-K, pages 36, 37, 76, and 77.

3. Responses to Staff Data Request Nos. 4 Amended, 24, 31, 33, 48, and 64 Amended.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2007 or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission file number: 1-3368

THE EMPIRE DISTRICT ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

Kansas (State of Incorporation)	**44-0236370** (I.R.S. Employer Identification No.)
602 Joplin Street, Joplin, Missouri (Address of principal executive offices)	**64801** (zip code)

Registrant's telephone number: **(417) 625-5100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 1, 2007, 30,362,953 shares of common stock were outstanding.

	Three Months Ended		Twelve Months Ended	
Earnings Per Share – 2006*	**$**	**0.06**	**$**	**0.99**
Revenues				
Electric on-system	$	0.31	$	0.70
Electric off – system and other		0.05		0.04
Gas**		0.69		1.38
Water		0.00		0.01
Non – Regulated		0.00		0.01
Expenses				
Electric fuel		(0.11)		0.33
Purchased power		(0.01)		(0.16)
Cost of natural gas**		(0.47)		(0.89)
Regulated – electric		(0.04)		(0.08)
Regulated – gas		(0.07)		(0.23)
Maintenance and repairs		(0.14)		(0.20)
Depreciation and amortization		(0.09)		(0.15)
Other taxes		(0.05)		(0.09)
Interest charges		(0.04)		(0.15)
AFUDC		0.04		0.12
Discontinued operations		0.02		0.04
Loss on plant allowance		0.00		(0.03)
Income taxes, result of effective rate change		0.02		(0.02)
Other income and deductions		0.00		0.03
Dilutive effect of additional shares issued in July 2006		(0.02)		(0.21)
Earnings Per Share – 2007*	**$**	**0.15**	**$**	**1.44**

** Three months ended and twelve months ended March 31, 2007 include the effect of discontinued operations, which were losses of $0.02 and $0.04, respectively.*
*** Gas segment revenues and expenses are included from June 1, 2006.*

Recent Activities

2007 Ice Storm

A major ice storm struck virtually all areas of our electric service territory January 12-14, 2007 causing substantial damage. Approximately 85,000 (52%) of our electric customers were without power at the height of the storm. Costs associated with the restoration effort due to the ice storm were approximately $29.0 million, of which $18.0 million was capitalized as additions to our utility plant. Approximately $4.4 million was recorded as maintenance expense in the first quarter and approximately $6.5 million was deferred as a regulatory asset as we believe it is probable that these costs will be recoverable in future electric rate cases.

Energy Supply

As of April 10, 2007, our new Siemens V84.3A2 combustion turbine, Unit 12 at our Riverton plant, began commercial operation. Riverton Unit 12 will have a summer rated capacity of approximately 148 megawatts, increasing our Riverton Plant's total generating capacity to 284 megawatts.

2007 Activities

Asbury SCR and Maintenance Outage

In order to help meet CAIR requirements, we constructed an SCR at Asbury during the fall of 2007 and placed it in service in early February 2008. This was combined with our five year Asbury maintenance project. Our Asbury units went off-line September 21, 2007 and were expected to be back on-line during the last week of November, during which time we expected to tie in the SCR. However, on December 7, 2007, during the reassembly of the generator, the unit failed inspection. On December 9, 2007 it was determined that corrective action would be necessary and that additional work would require the unit to remain on outage an additional 60 days. The total cost of the SCR project was approximately $31.0 million (excluding AFUDC), of which $28.1 million was expended through December 31, 2007 with the remainder expended in 2008. This project was also included as part of our Experimental Regulatory Plan approved by the MPSC. In addition, as a result of the extended outage at Asbury into the first quarter of 2008, we expect that our earnings for the first quarter will be negatively impacted compared to earnings in the first quarter of 2007. We had to replace the energy that would have been generated by our coal-fired units at the Asbury plant with energy generated at our gas plants and with purchased power. We had originally estimated that this would increase our expenses approximately $7–9 million in the fourth quarter of 2007 as compared to the fourth quarter of 2006 due to the original extended outage. We then estimated that during the additional 60 day outage we would incur approximately $8–10 million in additional replacement energy costs. After assessing the actual cost of the incremental purchased power and gas-fired generation, we estimate the planned outage added incremental expenses for the fourth quarter of approximately $8.7 million. We estimate the extended outage (December 8–December 31, 2007) increased expenses an additional $3.5 million.

2007 Ice Storms

A major winter storm system that brought sleet and freezing rain to a large portion of our service area December 9–11, 2007 left approximately 65,000 (40%) of our electric customers without power. Costs associated with the restoration effort due to this ice storm were approximately $18.6 million, of which approximately $9.2 million was capitalized as additions to our utility plant, approximately $1.5 million was recorded as maintenance expense and approximately $7.9 million was deferred as a regulatory asset, as we believe it is probable that these costs will be recoverable in future electric rate cases.

A major ice storm also struck virtually all areas of our electric service territory January 12–14, 2007 causing substantial damage. Approximately 85,000 (52%) of our electric customers were without power at the height of the storm. Costs associated with the restoration effort due to the ice storm were approximately $30.7 million, of which $19.2 million has been capitalized as additions to our utility plant, approximately $3.9 million recorded as maintenance expense and approximately $7.6 million was deferred as a regulatory asset as we believe it is probable that these costs will be recoverable in future electric rate cases.

Financing

On December 12, 2007, we sold 3,000,000 shares of our common stock in an underwritten public offering for $23.00 per share. The sale resulted in net proceeds of approximately $65.8 million ($69.0 million less issuance costs of $3.2 million). The proceeds were added to our general funds and used to pay down short-term indebtedness incurred, in part, as a result of our on-going construction program.

On March 26, 2007, EDE issued $80 million principal amount of First Mortgage Bonds, 5.875% Series due 2037. The net proceeds of $79.1 million, less $0.4 million of legal and other financing fees, were added to our general funds and used to pay down short-term indebtedness incurred, in part, as a result of our on-going construction program.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016 .
OR
__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________.

Commission file number 001-36108

ONE Gas, Inc.

(Exact name of registrant as specified in its charter)

Oklahoma	**46-3561936**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15 East Fifth Street, Tulsa, OK	**74103**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (918) 947-7000

Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value of $0.01	**New York Stock Exchange**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No__

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No _

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one) Large accelerated filer X Accelerated filer __ Non-accelerated filer __ Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes__ No X

The aggregate market value of the equity securities held by nonaffiliates based on the closing trade price of the registrant on June 30, 2016, was $3.2 billion.

On February 10, 2017 , we had 52,283,788 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held May 25, 2017, are incorporated by reference in Part III.

vendors and suppliers vary from period to period in the normal course of business and directly impact our cash flows from operations. In addition, our changes in income taxes receivable were impacted by an extension of the IRS rules for bonus depreciation.

Investing Cash Flows - 2016 vs. 2015 - Cash used in investing activities increased for 2016, compared to 2015, due primarily to capital expenditures for increased system integrity activities and extending service to new areas.

2015 vs. 2014 - Cash used in investing activities decreased for 2015, compared to 2014, due primarily to capital expenditures for information technology hardware and software associated with our separation from ONEOK.

Financing Cash Flows - 2016 vs. 2015 - Cash provided by financing activities for 2016 increased, compared with cash used in 2015, due primarily to net borrowings on our notes payable to fund working capital and capital investments, offset partially by the 20 cent per share increase in annual dividends.

2015 vs. 2014 - Cash used in financing activities increased for 2015, compared with 2014, due primarily to an increase in the quarterly dividend rate of two cents, an additional quarter of dividends paid in 2015, a decrease in our outstanding notes payable, and purchases of treasury stock.

ENVIRONMENTAL, SAFETY AND REGULATORY MATTERS

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations that affect many aspects of our present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. In addition, emission controls and/or other regulatory or permitting mandates under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures. We cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all work at these sites. The terms of the consent agreement require us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation typically involves the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites, and continue to monitor groundwater at eight of the 12 sites according to plans approved by the KDHE. Regulatory closure has been achieved at three of the sites, subject to any future regulatory remediation requirements that may require additional costs. During 2016, we completed a site assessment at the twelfth site where no active soil remediation has occurred. We have submitted a work plan to the KDHE for approval to remove contaminated soil at this site. Costs associated with the remediation at this site are not expected to be material to our results of operations or financial position.

With regard to one of our former manufactured natural gas sites, recent results from periodic monitoring and a 2016 interim site investigation indicated elevated levels of potentially harmful materials at the site. In response to the results of the interim site investigation, during the fourth quarter of 2016, potential investigation and remediation alternatives were developed. We have estimated the potential costs associated with additional investigation and remediation to be in the range of $4.0 million to $7.0 million. Additional testing and work plan development will be conducted in 2017 to develop a remediation work plan to present to the KDHE for approval and could impact our estimates of the cost of remediation at this site. A single reliable estimate of the remediation costs is not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, in the fourth quarter of 2016, we recorded a reserve of $4.0 million for this site.

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during 2016, 2015 and 2014. A number of environmental issues may exist with respect to manufactured gas plants that are unknown to us. Accordingly, future costs are dependent on the final determination and regulatory approval of any remedial actions, the complexity of the site, level of remediation required, changing technology and governmental regulations, and to the extent not recovered by insurance or recoverable in rates from our customers, could be material to our financial condition, results of operations or cash flows.

With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us that are subject to environmental regulation, our environmental expenditures could increase in the future, and such expenditures may not be fully recovered by insurance or recoverable in rates from our customers, and those costs may adversely affect our financial condition, results of operations and cash flows. We do not expect expenditures for these matters to have a material adverse effect on our financial condition, results of operations or cash flows.

Pipeline Safety - We are subject to PHMSA regulations, including integrity-management regulations. PHMSA regulations require pipeline companies operating high-pressure transmission pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act was signed into law. The law increased maximum penalties for violating federal pipeline safety regulations and directs the DOT and the Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include, but are not limited to, the following:

- an evaluation of whether natural gas pipeline integrity-management requirements should be expanded beyond current high-consequence areas;
- a verification of records for pipelines in class 3 and 4 locations and high-consequence areas to confirm maximum allowable operating pressures; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in high-consequence areas.

In April 2016, PHMSA published a NPRM, the Safety of Gas Transmission & Gathering Lines Rule, in the Federal Register to revise pipeline safety regulations applicable to the safety of onshore natural gas transmission and gathering pipelines. Proposals include changes to pipeline integrity management requirements and other safety-related requirements. The NPRM comment period ended July 7, 2016, and comments are under review by PHMSA. The potential capital and operating expenditures associated with the NPRM are currently being evaluated and could be significant depending on the final regulations.

Air and Water Emissions - The Clean Air Act, the Clean Water Act, analogous state laws and/or regulations promulgated thereunder, impose restrictions and controls regarding the discharge of pollutants into the air and water in the United States. Under the Clean Air Act, a federally enforceable operating permit is required for sources of significant air emissions. We may be required to incur certain capital expenditures for air-pollution-control equipment in connection with obtaining or maintaining permits and approvals for sources of air emissions. We do not expect that these expenditures will have a material impact on our respective results of operations, financial position or cash flows. The Clean Water Act imposes substantial potential liability for the removal of pollutants discharged to waters of the United States and remediation of waters affected by such discharge.

International, federal, regional and/or state legislative and/or regulatory initiatives may attempt to regulate greenhouse gas emissions. We monitor relevant legislation and regulatory initiatives to assess the potential impact on our operations. The EPA's Mandatory Greenhouse Gas Reporting Rule requires annual greenhouse gas emissions reporting as carbon dioxide equivalents from affected facilities and for the natural gas delivered by us to our natural gas distribution customers who are not otherwise required to report their own emissions. The additional cost to gather and report this emission data did not have, and we do not expect it to have, a material impact on our results of operations, financial position or cash flows. In addition, Congress has considered, and may consider in the future, legislation to reduce greenhouse gas emissions, including carbon dioxide and methane. Likewise, the EPA may institute additional regulatory rulemaking associated with greenhouse gas emissions. At this time, no rule or legislation has been enacted for natural gas distribution that assesses any costs, fees or expenses on any of these emissions.

CERCLA - The federal CERCLA, also commonly known as Superfund, imposes strict, joint and several liability, without regard to fault or the legality of the original act, on certain classes of "persons" (defined under CERCLA) that caused and/or contributed to the release of a hazardous substance into the environment. These persons include, but are not limited to, the owner or operator of a facility where the release occurred and/or companies that disposed or arranged for the disposal of the hazardous substances found at the facility. Under CERCLA, these persons may be liable for the costs of cleaning up the hazardous substances released into the environment, damages to natural resources and the costs of certain health studies. We deductions in excess of previously recorded benefits based on the performance share unit and restricted share unit value at the time of grant. Although these additional tax benefits are reflected in NOL carryforwards in the tax return, the additional tax benefit is not recognized until the deduction reduces taxes payable. A portion of the tax benefit does not reduce our current taxes payable due to NOL carryforwards; accordingly, these tax benefits are not reflected in our NOLs in deferred tax assets. Cumulative tax benefits included in NOL carryforwards but not reflected in deferred tax assets were $11.0 million as of December 31, 2016.

We have filed our consolidated federal and state tax returns for years 2014 and 2015.

13. COMMITMENTS AND CONTINGENCIES

Commitments - Operating leases represent future minimum lease payments under noncancelable leases covering office space, facilities and information technology hardware and software. Rental expense was $8.6 million in 2016 and $5.0 million in each of 2015 and 2014. The following table sets forth our operating lease payments for the periods indicated:

Operating Leases		
(Millions of dollars)		
2017	$	5.6
2018		5.2
2019		4.4
2020		3.6
2021		3.2
Thereafter		4.4
Total	$	26.4

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations, which affect many aspects of our present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. In addition, emission controls and/or other regulatory or permitting mandates under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures. We cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all work at these sites. The terms of the consent agreement require us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation typically involves the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites, and continue to monitor groundwater at eight of the 12 sites according to plans approved by the KDHE. Regulatory closure has been achieved at three of the sites, subject to any future regulatory remediation requirements that may require additional costs. During 2016, we completed a site assessment at the twelfth site where no active soil remediation has occurred. We have submitted a work plan to the KDHE for approval to remove contaminated soil at this site. Costs associated with the remediation at this site are not expected to be material to our results of operations or financial position.

With regard to one of our other former manufactured natural gas sites, recent results from periodic monitoring and a 2016 interim site investigation indicated elevated levels of potentially harmful materials at the site. In response to the results of the interim site investigation, during the fourth quarter of 2016, potential investigation and remediation alternatives were developed. We have estimated the potential costs associated with additional investigation and remediation to be in the range of $4.0 million to $7.0 million . Additional testing and work plan development will be conducted in 2017 to determine a remediation work plan to present to the KDHE for approval and could impact our estimates of the cost of remediation at this site. A single reliable estimate of the remediation costs is not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, in the fourth quarter of 2016, we recorded a reserve of $4.0 million for this site.

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during 2016, 2015 and 2014. A number of environmental issues may exist with respect to manufactured gas plants that are unknown to us. Accordingly, future costs are dependent on the final determination and regulatory approval of any remedial actions, the complexity of the site, level of remediation required, changing technology and governmental regulations, and to the extent not recovered by insurance or recoverable in rates from our customers, could be material to our financial condition, results of operations or cash flows.

With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us that are subject to environmental regulation, our environmental expenditures could increase in the future, and such expenditures may not be fully recovered by insurance or recoverable in rates from our customers, and those costs may adversely affect our financial condition, results of operations and cash flows. We do not expect expenditures for these matters to have a material adverse effect on our financial condition, results of operations or cash flows.

Pipeline Safety - We are subject to PHMSA regulations, including integrity-management regulations. PHMSA regulations require pipeline companies operating high-pressure transmission pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act was signed into law. The law increased maximum penalties for violating federal pipeline safety regulations and directs the DOT and the Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include, but are not limited to, the following:

- an evaluation of whether natural gas pipeline integrity-management requirements should be expanded beyond current high-consequence areas;
- a verification of records for pipelines in class 3 and 4 locations and high-consequence areas to confirm maximum allowable operating pressures; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in high-consequence areas.

In April 2016, PHMSA published a NPRM, the Safety of Gas Transmission & Gathering Lines Rule, in the Federal Register to revise pipeline safety regulations applicable to the safety of onshore natural gas transmission and gathering pipelines. Proposals include changes to pipeline integrity management requirements and other safety-related requirements. The NPRM comment period ended July 7, 2016, and comments are under review by PHMSA. The potential capital and operating expenditures associated with the NPRM are currently being evaluated and could be significant depending on the final regulations.

Legal Proceedings - We are a party to various litigation matters and claims that have arisen in the normal course of our operations. While the results of litigation and claims cannot be predicted with certainty, we believe the reasonably possible losses from such matters, individually and in the aggregate, are not material. Additionally, we believe the probable final outcome of such matters will not have a material adverse effect on our results of operations, financial position or cash flows.

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-004 Amended: Additional Liability
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 7/21/2017
Date Information Needed: 7/21/2017
Requested By: Bill Baldry

Please provide the following:

On page 5 of Mr. Dittemore's testimony, he discusses increasing the environmental liability by $4,500,000.

a. Please provide a copy of the work papers that support the additional liability of $4,500,000.

AMENDED

Based upon discussions with Staff, KGS has agreed to remove the confidential designation to the written response to this data request subject to KGS retaining its confidential designation on all of the information contained in the documents that were attached in support of the written response to data request number 4.

The associated attachments contain financial and business information the Company has deemed and treats as "CONFIDENTIAL" and as such, the information contained herein is subject to the Confidential treatment and protections proscribed in K.S.A. 66-1220a., K.A.R. 82-1-221a and the Protection Order issue in this docket. The improper release of the confidential information may result in irreparable economic harm to the Company and its customers.

Response:
The $4.5 million increase in the environmental liability was the result of two entries recorded in 2016. The first entry was the result of an internal review of our environmental reserve. Please see Attachment A as support for a $500,000 accrual recorded in September, 2016.

The second entry was the result of new information in 2016 at one of our former manufactured gas sites. Recent results from periodic monitoring and a 2016 interim site investigation at our Abilene site indicated elevated levels of potentially harmful materials at the site. In response to the results of the interim site investigation, during the fourth quarter of 2016, potential investigation and remediation alternatives were developed. We have estimated the potential costs associated with additional investigation and remediation to be in the range of $4.0 million to $7.0 million. A single reliable estimate of the remediation costs is not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, in the fourth quarter of 2016, we recorded a reserve of $4.0 million for this site. Please see the overview of the Abilene remediation efforts prepared by Burns McDonnell, included as Attachment B, that supports the $4 million accrual recorded in December, 2016.

Prepared by: Jeff Husen

Verification of Response
I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Dittemore

Date: July 21, 2017

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-024: consent order 94-E-0172 supplemental site investigation
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 6/1/2017
Date Information Needed: 6/12/17
Requested By: Leo Haynos

Please provide the following:

A. Please provide most recent supplemental site investigation for Abilene, Junction City, Manhattan, Salina, and Topeka MGP sites.
B. Please provide most recent KDHE approval/review of SSI for the above sites.
C. If KDHE has not completed the review process, please provide correspondence between KDHE and KGS and/or its contractors regarding the most recent SSI for the above sites.

KGS Response:

Please see the attached site investigation reports and related reports for Abilene, Junction City, Manhattan, Salina and Topeka, along with the KDHE correspondence related to these reports.

Prepared by: Jim Haught

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Witteman

Date: June 12, 2017

Division of Environment
Curtis State Office Building
1000 SW Jackson St., Suite 400
Topeka, KS 66612-1367

Kansas

Phone: 785-296-1535
Fax: 785-296-8464
www.kdheks.gov

Susan Mosier, MD, Secretary

Department of Health & Environment

Sam Brownback, Governor

January 17, 2017

Mr. Jim Haught, MD-18E
Director of Environment
ONE-Gas, Inc.
15 East 5th Street
Tulsa, OK 74103

RE: Kansas Department of Health and Environment Approval, Supplemental Site Investigation (SSI) Report, Former Manufactured Gas Plant Site, Abilene, Kansas, C5-021-70043

Dear Mr. Haught:

The Kansas Department of Health and Environment (KDHE), Bureau of Environmental Remediation, has completed review of the referenced report. The report was prepared on behalf of One Gas, Inc., by Burns and McDonnell and was received October 21, 2016. KDHE concludes the report is a factual rendering of site activities and results and has no comment. No revision or response is needed.

If you have questions or comments, please contact me at my electronic-mail address johncook@kdheks.gov or by telephone at (785) 296-8986.

Sincerely,

John K. Cook

John K. Cook, P.G.
Professional Geologist
Remedial Section/Site Restoration Unit
Kansas Department of Health and Environment

cc: Randy Carlson > Maura O'Halloran > J. Cook > KDHE/BER file C5-021-70043 1.0
Matt Kaiser – ONE Gas, Inc. (Tulsa office) (e-copy)

Division of Environment
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Susan Mosier, MD, Secretary

Kansas
Department of Health & Environment

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Sam Brownback, Governor

January 23, 2017

Mr. Jim Haught, MD-18E
Director of Environment
ONE-Gas, Inc.
15 East 5th Street
Tulsa, OK 74103

RE: Kansas Department of Health and Environment (KDHE) Approval with Comment, Comprehensive Investigation/Corrective Action Study Work Plan, Former Manufactured Gas Plant Site, Abilene, Kansas, Project No. C5-021-70043

Dear Mr. Haught:

The Kansas Department of Health and Environment, Bureau of Environmental Remediation, has completed review of the referenced document. The work plan was prepared on behalf of One Gas, Inc., (One Gas) by Burns and McDonnell and was received January 11, 2017. While KDHE is approving the work plan and is not requiring revision, we do have the following observations that One Gas should consider as the project progresses. Please provide written responses to these observations within 30 days of the date of this letter.

1. In Section 4.1.2.2, One Gas notes that if groundwater yield is not sufficient for sample collection via a "drop screen ... a temporary piezometer may be installed to allow time for sufficient volume of groundwater to enter the well screen for sampling purposes." The text goes on to say that, "Samples may be collected without purging . . ." In your response please clarify the intended use of data from temporary piezometers (for example, screening level data for Phase 2 well placement) knowing that screening level data are generally not preferred when considering compliance with applicable enforcement and/or performance monitoring criteria.

2. Since this data collection work plan is intended to support the development of a preliminary list of remedial action objectives and corresponding potential corrective action alternatives (see page 1-2, 3rd bullet), please ensure that the resultant CI/CAS report satisfies KDHE Policy/guidance, BER-RS-20 Scope of Work (SOW) for a Comprehensive Investigation (CI)/Corrective Action Study(CAS) (Dec 2005).

If you have questions or comments, please contact me at my electronic-mail address johncook@kdheks.gov or by telephone at (785) 296-8986.

Sincerely,

John K. Cook

John K. Cook, P.G.
Professional Geologist
Remedial Section/Site Restoration Unit
Kansas Department of Health and Environment

cc: Maura O'Halloran > J. Cook > KDHE/BER file C5-021-70043 1.0
Matt Kaiser – ONE Gas, Inc. (Tulsa office) (e-copy)

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-031: Booking of the Liability in 3Q and 4Q 2016.
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 6/20/17
Date Information Needed: 6/29/17
Requested By: Justin Grady

Please provide the following:

Regarding the $4.5 million of additional liability (and related expense) recorded in the third and fourth quarters of 2016, please provide a copy of the journal entries that accomplished the recording of this activity on both Kansas Gas Service's books and the corporate books of One Gas, Inc.

KGS Response:

Attachment A to this response is a copy of the journal entry recorded in September 2016 for the $500,000 increase in the Environmental Reserve. The supporting documentation for this journal entry was provided in confidential Attachment A in response to Data Request 17-455 KCC-004.

Attachment B to this information request, provides the journal entry recorded in December 2016, which documents the $4,000,000 increase in the Environmental Reserve. The supporting documentation for this journal entry was provided in confidential Attachment B in response to Data Request 17-455 KCC-004.

Prepared by:

Jeff Husen

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Dittemore

Date: June 29, 2017

CORPORATE SET OF BOOKS

Unposted Journals
For SEP-16

Report Date: 07-OCT-2016 15:00
Page: 1 of 1

Currency: USD
Source: AutoCopy
Ledger/Ledger Set:

Batch: OGS314A
Balance: Actual
Posted Date:
Batch Desc: Increase Environmental Reserve
Ledger: CORPORATE SET OF BOOKS
Journal Entry: OGS314
Category: OGS
Reference: Mindy Anderson
Currency: USD
JE Desc: Increase Environmental Reserve

Line	Account	Trans Date	Description	Source Item	Debits	Credits	Units
10	051.1714.1714.9210209.40.000000	30-SEP-16	Increase Environm		500,000.00		0.00
20	101.0000.0000.2530350.00.000000	30-SEP-16	Increase Environm			500,000.00	0.00
Header Total:					500,000.00	500,000.00	0.00
Batch Total:					500,000.00	500,000.00	0.00
AutoCopy		Total:			500,000.00	500,000.00	0.00
Grand Total:					500,000.00	500,000.00	0.00

CORPORATE SET OF BOOKS | Posted Journals For DEC-16 | Report Date: 09-JAN-2017 16:45 Page: 1 of 1

Currency: USD
Source: AutoCopy
Ledger/Ledger Set:

Batch: OGS315A Balance: Actual Posted Date: 09-JAN-17
Batch Desc: Increase Environmental Reserve
Ledger: CORPORATE SET OF BOOKS
Journal Entry: OGS315 Category: OGS
Reference: Alberty Currency: USD
JE Desc: Increase Environmental Reserve

Line	Account	Trans Date	Description	Line Item	Debits	Credits	Units
10	051.1714.1714.8800209.40.000000	31-DEC-16	Increase Environm		4,000,000.00		0.00
20	101.0000.0000.2530350.00.000000	31-DEC-16	Increase Environm			4,000,000.00	0.00
21	051.0000.0000.2340101.00.000000	31-DEC-16	Intracompany bala			4,000,000.00	0.00
22	101.0000.0000.1460051.00.000000	31-DEC-16	Intracompany bala		4,000,000.00		0.00
Header Total:					8,000,000.00	8,000,000.00	0.00
Batch Total:					8,000,000.00	8,000,000.00	0.00
AutoCopy	Total:				8,000,000.00	8,000,000.00	0.00
Grand Total:					8,000,000.00	8,000,000.00	0.00

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-033: Follow up to DR No. 4
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 6/20/17
Date Information Needed: 6/29/17
Requested By: Justin Grady

Please provide the following:

Please refer to the Attachment A provided in response to KCC DR No. 4. That memo provides the rationale and explanation for an additional $500,000 that was needed to increase the environmental reserve at September 30, 2016 to approximately $2.2 million. Please describe the "estimates of additional work not contemplated in the three-year work plan that is probable of occurring in 2017," that was the catalyst for the establishment of the $500,000 of additional liability. Is this work contained in the Exhibit JEH-7? If so, please identify specifically where in this document that work is included.

KGS Response:

In 2016, a Supplemental Site Investigation (SSI) was conducted at the Abilene site as anticipated in the "three-year workplan" (*See*, Exhibit JEH-7). The SSI produced findings that indicated the project was ready to move forward to the next step - conducting a Comprehensive Investigation/Corrective Action Study (CI/CAS). The CI/CAS was not included in the intial three-year work plan because, while the study was anticpated, it was not certain that the 2016 SSI would produce the information necessary to allow the project to move forward within the plan's time-frame. However, in the third quarter of 2016, the $500,000 liability (an estimate of costs to develop the CI/CAS workplan, to conduct field sampling and to develop a report for KDHE), was established when it became clear that the study was the reasonable next step.

Prepared by: James Haught

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Dittemore

Date: June 27, 2017

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-048: RE: DR No. 23 Regulatory Asset
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 6/27/17
Date Information Needed: 7/07/17
Requested By: Bill Baldry

Please provide the following:

In this data request, assume KGS made a journal entry in 2016 to establish the environmental liability described on pages 5 and 6 of David Dittemore's testimony (if the following journal entry is incorrect, please correct):
Operating Expense $4,500,000
Environmental Liability $4,500,000
In this data request, assume in 2017 the Commission grants the establishment of a regulatory asset.
1. Please provide the journal entries (using the FERC uniform system of accounts) on ONE Gas and KGS' books:
a.To establish the $4,500,000 regulatory asset in 2017.
b.To record an expenditure of $500,000 for remediation costs in 2017.

KGS Response:

1.

a.	Entry recorded on ONE Gas Corporate books (OGS):		
	Dr. Account (Acct.) 182.3 Regulatory Asset	$4,500,000	
	Cr. Acct 234 Intercompany payable to KGS		$4,500,000
	Entry recorded on KGS books:		
	Dr. Acct 146 Intercompany receivable to OGS	$4,500,000	
	Cr. Acct. 923 Operating Expense		$4,500,000
b.	Entries recorded on OGS books:		
	Dr. Acct 252 Environmental Liability	$500,000	
	Cr. Acct 131 Cash		$500,000
	Dr. Acct. 146 Intercompany receivable from KGS	$500,000	
	Cr. Acct 182.3 Regulatory Asset		$500,000
	Entry recorded on KGS books:		
	Dr. Acct. 182.3 Regulatory Asset	$500,000	
	Cr. Acct. 234 Intercompany payable to OGS		$500,000

Prepared by: Jeff Husen

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Dittemore

Date: July 7, 2017

Kansas Corporation Commission
Docket Number 17-KGSG-455-ACT
Information Request

Data Request: 17-455 KCC-064: CONFIDENTIAL - DR Nos. 4 and 33 - Environmental Accruals
Company Name: Kansas Gas Service, a Division of ONE Gas, Inc.
Request Date: 7/14/2017
Date Information Needed: 7/24/2017
Requested By: Bill Baldry

AMENDED

Please provide the following:

1. DR No. 33 - Is the $500,000 environmental accrual in September 2016 related only to remediation work at the Abilene site?
2. DR No. 4 - Is the $4,000,000 environmental accrual in December 2016 related only to remediation work at the Abilene site?
3. Do the environmental accruals made in 2016 that total $4,500,000 include environmental costs anticipated in any of the sites other than Abilene or is the entire $4,500,000 for only Abilene remediation work?

Based upon discussions with Staff, KGS has agreed to remove the confidential designation to the written response to this data request subject to KGS retaining its confidential designation on all of the information contained in the documents that were attached in support of the written response to data request number 4 as referenced in the request.

KGS Response:

1. Yes; however, any difference between the actual costs incurred and the accruals will be considered in evaluating our reserves for our manufactured gas plants in the aggregate.
2. Yes; however, any difference between the actual costs incurred and the accruals will be considered in evaluating our reserves for our manufactured gas plants in the aggregate.
3. No; however, the adequacy of our reserves are evaluated by the environmental team, legal and accounting on a quarterly basis using current information as to the state of activities at all our sites individually and in the aggregate. Based on the information available, our reserves reflect the costs that we can reasonably estimate for all of our manufactured gas plant sites. If actual costs incurred differ from the amounts estimated at the time of an accrual, the variance is included in the analysis of the adequacy of our environmental reserves for all manufactured gas sites in the aggregate.

While the reserves discussed in questions 1 and 2 represent management's estimates of costs that are probable and that can be reasonably estimated at the time we closed our books at September and December 2016. Only the actual costs incurred associated with these estimates will be eligible for recovery under the mechanism proposed in this docket.

Prepared by: Jeff Husen

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: David Dittemore

Date: July 28, 2017

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

William E. Baldry, being duly sworn upon his oath deposes and says that he is the Senior Auditor in the Utilities Division of the Kansas Corporation Commission; that he has read and is familiar with the foregoing *Direct Testimony*, and that the statements therein are true to the best of his knowledge, information and belief.

William E. Baldry

William E. Baldry
Senior Auditor, Utilities Division
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 8th day of September, 2017.

PAMELA J. GRIFFETH
Notary Public - State of Kansas
My Appt. Expires 08-17-2019

Pamela J. Griffeth
Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

17-KGSG-455-ACT

I, the undersigned, certify that a true and correct copy of the above and foregoing Direct Testimony was served by electronic service on this 8th day of September, 2017, to the following:

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janet.buchanan@onegas.com

CERTIFICATE OF SERVICE

17-KGSG-455-ACT

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/s/Pamela Griffeth

Pamela Griffeth
Administrative Specialist